ANNUAL REPORT 1967

interco

INCORPORATED

56th
ANNUAL REPORT

Annual Meeting of Stockholders
will be held at 10 a.m. on March 11, 1968
at the Company's General Offices,
1509 Washington Avenue, St. Louis, Missouri

contents

INTERCO INCORPORATED

Highlights of the Year

INTERCO INCORPORATED

FISCAL YEARS ENDED NOVEMBER 30,	1967	1966
Net Sales	$536,186,542	$509,878,448
Net Income	18,627,100	16,117,432
Working Capital	168,058,807	155,415,304
Common Stockholders' Equity	131,788,413	119,245,965
Per Share of Common Stock:		
Net Income	4.78	4.09
Dividends	1.60	1.40
Working Capital	47.02	43.99
Stockholders' Equity	$ 36.87	$ 33.75
Number of Common Stockholders	13,800	14,900
Number of Employees	33,200	33,400

To Our Stockholders:

The year nineteen hundred sixty-seven was another year of growth and achievement for INTERCO INCORPORATED, and new records were established.

Sales exceeded the one-half billion dollar mark, and sales and earnings for the year were the highest in the company's fifty-six year history.

The year just closed was the fourth successive year in which sales and earnings were higher than those of the prior year and the third successive year in which the dividend on common stock was increased.

The quarterly dividend rate was raised from $0.40 to $0.45 a share effective with the January 5, 1968 payment reflecting the higher rate of earnings and the confidence of your Board of Directors in the continued improvement in the earnings of the company.

The Board of Directors voted to recommend that the common stock be split two shares for one and to increase the authorized number of common shares from 10 million to 15 million shares. These matters will be submitted for approval at the stockholders' meeting March 11, 1968. The last stock split occurred in 1927.

Your management's prime objective is to show year-to-year improvement in the return on common stockholders' equity. The return in the past four years has been increased from a low of 4.9% in 1963 to 14.3% in 1967. The steady increase in earnings in this period has resulted principally from the marked improvement in our footwear operations and the acquisition of strong, well-established companies under the guidance of capable and aggressive management.

At the start of our diversification program four years ago, a number of sound basic principles were established as guidelines for evaluating potential acquisitions. These principles have been rigidly followed, and as a result INTERCO has attracted the types of businesses and management which have enabled it to improve its results and at the same time to broaden and strengthen the earnings base of the company. The excellent companies we have brought together have, without exception, increased both sales and earnings since becoming a part of INTERCO.

A contributing factor to the success of our diversification program is the careful adherence to a policy of autonomy for each of the operating divisions. One of the most important functions of the relatively small corporate staff of INTERCO INCORPORATED is to create and maintain a climate in which the managements of the operating divisions can function most efficiently and realize the maximum amount of personal satisfaction.

The chart on page seven illustrates the relationship of the eight major operating divisions to INTERCO INCORPORATED and the simplicity of the organizational structure.

The acquisition of Sam Shainberg Company, which operates a chain of 88 junior department stores in south central and southeastern United States with an annual volume of $46 million, was completed on June 29, 1967. The notable increase in the sales and earnings of the Shainberg Company since our negotiations began in mid-1966, reflects the ability of the outstanding management we have acquired with this company.

On October 2, plans were made to acquire the capital stock of Campus Sweater & Sportswear Company on an exchange of stock basis. The Campus Company with offices in Cleveland and New York was established in 1922 and is one of the country's leading manufacturers and distributors of men's and boys' sportswear with annual sales volume of about $80 million. Their extensive lines of products include sport shirts, sweaters, knit shirts, outer jackets, sport coats, suits, slacks and swimwear, which are sold under the nationally known "Campus" label.

A request for a tax ruling has been filed with the Internal Revenue Service, and we expect that the transaction will be closed in April, 1968. Campus will operate autonomously as another major division of INTERCO INCORPORATED.

We invite your attention in the following pages to the review of the year and to the reports of significant developments in each of the major operating divisions.

In the year just closed we have continued to broaden the operating base of the company, further strengthened our management team, and finished the year with the strongest financial position in the company's history.

Looking ahead to the new year, we plan to pursue our acquisition program in the same conservative manner and to profitably expand our present operations.

Working together, INTERCO people produced the finest year in the company's history. We are grateful to them and to our customers, suppliers, and stockholders for their continued confidence and cooperation.

MAURICE R. CHAMBERS

FOR THE BOARD OF DIRECTORS

M. R. Chambers

January 10, 1968

Chairman of the Board and President

The Year in Review

SALES AND INCOME

Net sales and income in 1967 were the highest in the history of the company. This was the fourth year in succession in which the results were greater than in the prior year.

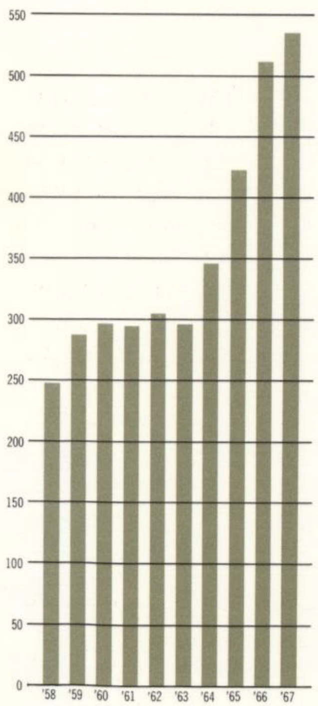
Net sales were $536,186,542 compared with $509,878,448 a year ago—an increase of $26,308,094 or 5.2%. Net sales for both years include Sam Shainberg Company on a pooling of interests basis. Before the inclusion of the Shainberg Company, net sales were $490,225,850 compared with $469,131,589 in 1966—an increase of $21,094,261.

The company's sales volume is represented by four major categories which are Footwear, Department Stores, Apparel, and Hardware. A percentage breakdown of 1967 sales by these areas of business activity is shown below:

Footwear	64%
Department Stores	23
Apparel	7
Hardware	6
Total	100%

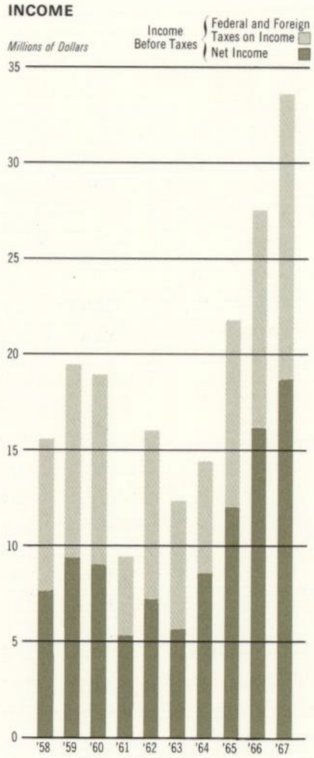
SALES

Millions of Dollars



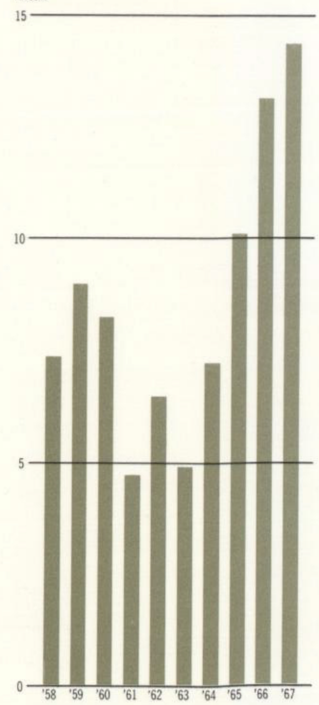
INCOME

Millions of Dollars



RETURN ON COMMON STOCKHOLDERS' EQUITY

Percent



Net income of $18,627,100 for the year exceeded the prior year's income of $16,117,432 by $2,509,668 or 15.6%. Excluding the earnings of Sam Shainberg Company, which were included in both years, income was $16,919,134 in the year just ended compared with $14,597,924 a year ago—an increase of $2,321,210.

Earnings per common share of $4.78 were $0.69 per share or 16.9% greater than the $4.09 earned in 1966. The earnings of Sam Shainberg Company were included after providing for the dividends that would have been paid on the preferred stock issued in the transaction had the stock been outstanding in both years.

In the following is shown the distribution of the 1967 sales dollar:

Materials, supplies and expenses	$330,333,557	61.6%
Employees' pay and benefits	163,768,341	30.6
Taxes (excluding Social Security)	17,687,329	3.3
Depreciation	5,770,215	1.1
Dividends paid	7,143,381	1.3
Remainder used in business	11,483,719	2.1
	$536,186,542	100.0%

FINANCIAL POSITION

The company ended the year with a strong financial position. Working capital of $168,058,807 is an all time high reflecting an increase of $12,643,503 compared with a year ago. Ratio of current assets to current liabilities at year end was 4.6 to 1.

A major contribution to the improvement in working capital was the substantial reduction in inventories which resulted from a carefully planned program in all divisions. Inventories at the end of the year totalled $116,407,941 compared with $127,268,232 a year ago, a reduction of $10,860,291.

Cash at year end amounted to $26,787,766 and short-term borrowing was completely eliminated. This compares with cash of $21,626,092 and short-term borrowing of $13,964,217 a year ago—a net improvement in the cash position of $19,125,891 in 1967.

The acquisition of Sam Shainberg Company was completed during the year and all financial statements include their results for the full year 1967. The prior year's figures have been restated to include this company on a pooling of interests basis.

The source and distribution of funds in 1967 were:

Funds were acquired from sources as follows:	
Net income for year	$18,627,100
Increase in long-term debt	7,160,924
Provision for depreciation	5,770,215
Increase in deferred liabilities	1,480,965
Decrease in customers' secured loans	785,030
Net increase in capital stock transactions	561,329
Decrease in excess of investment over equity in subsidiaries, at acquisition	336,653
Increase in minority interests	326,076
	$35,048,292
These funds were distributed as follows:	
Expenditures for properties (net)	$10,540,942
Dividends paid on common and preferred stocks	6,676,093
Funds in escrow for construction	3,595,961
Increase in sundry investments	1,124,505
Dividends of acquired company prior to pooling	467,288
	22,404,789
Increase in working capital	12,643,503
	$35,048,292

CAPITAL EXPENDITURES

Expenditures for physical properties in 1967 amounted to $10,540,942. Of this amount, $4,435,017 was invested in International Shoe Company's new distribution center in Jefferson City, Missouri, which will require an additional $3,595,961 for full completion by mid-1968. The remaining expenditure of $6,105,925 was used in the company's program for modernization of its manufacturing facilities and for expanding and refurbishing retail outlets.

Capital expenditures in recent years have considerably exceeded the provision for depreciation. A comparison of capital expenditures and depreciation for the past two years is shown below:

Year	Expenditures	Depreciation
1967	$10,540,942	$5,770,215
1966	$11,361,459	$5,508,647

Total capital improvements in 1968 are estimated to be $11,000,000 including the $3,595,961 needed to complete the new distribution center. Depreciation in 1968 will approximate $6,600,000.

LONG-TERM DEBT

The company's long-term debt was $64,993,533 at year end, an increase of $7,160,924 during the year. The increase resulted from the addition of Industrial Revenue Bonds of $8,500,000 less net payments on debt during the year of $1,339,076. The revenue bonds were used to finance the construction and equipping of International Shoe Company's distribution center in Jefferson City, Missouri, which the company is leasing from the city. Under terms of the lease agreement, the company has the right to purchase the property and equipment which have been included in the company's property accounts. The bonds have been considered as long-term debt.

The principal debt of the company is $50,000,000 on which the first annual payment of $1,875,000 is due in 1970. All other debt is payable in varying amounts through 1991.

INVESTMENT TAX CREDIT

The 7% Investment Tax Credit, which was suspended October 10, 1966, and restored effective March 10, 1967, added $365,181 to income this year compared with $251,854 a year ago.

The Investment Tax Credit for 1967 includes $115,946 attributable to the machinery and equipment installed in International Shoe Company's new distribution center.

Interco Incorporated

PRINCIPAL OPERATING FACILITIES

Shoe Factories	46
Shoe Supply and Service Plants	13
Tanneries	3
Retail Shoe Stores and Departments	741
Department Stores	296
Apparel Factories	8
Retail Hardware Stores	6
Finished Goods Warehouses	21
TOTAL	1,134

DIVIDENDS

The common stock quarterly dividend of $0.40 per share was increased to $0.45 per share by the Board of Directors on December 4, 1967. This rate was effective with the January 5, 1968, payment and represents an annual rate of $1.80 per share. The payment of January 5 completed 55 years of continuous dividend payments by your company and was the 227th consecutive dividend to common stockholders. Dividends paid on common stock in 1967 amounted to $5,685,495.

Dividends in the amount of $780,322 were paid during the year to the holders of 167,060 shares of Series A First Preferred Stock. Holders of Series B First Preferred Stock received a dividend amounting to $210,276 on October 5, 1967. This was the first dividend on this series of stock which was paid at the quarterly rate of $0.52½ per share.

After the payment of dividends totalling $7,143,381 for the year, the company retained the remaining net income of $11,483,719 for use in the business.

CAPITAL STOCK

At the annual meeting of March 13, 1967, the stockholders approved an increase in the authorized number of shares of preferred stock from 250,000 to 577,060 shares and this class of stock was designated as First Preferred. Of this amount, 167,060 shares had been issued in September, 1966 as Series A in connection with the Central Hardware transaction and these shares remain outstanding.

Series B First Preferred Stock in the amount of 409,950 shares were issued in exchange for the outstanding common stock of Sam Shainberg Company. At year end, there were 397,515 shares outstanding. Series B shares are convertible share for share into the common stock of the company with certain minor restrictions. The premium on the call price is $2.10 which declines at the rate of one-tenth for each year after April 1, 1976.

Also authorized was a new class of Second Preferred Stock, in the amount of 1,000,000 shares, none of which has been issued.

The number of shares of authorized common stock was increased from 6 million to 10 million shares. At

year end a total of 3,711,053 shares of common stock had been issued with 3,574,217 shares outstanding.

The Board of Directors at their December 4, 1967 meeting voted to recommend that the common stock be split two shares for one and to increase the number of authorized shares of common stock from 10 million to 15 million shares. These matters will be submitted for approval at the annual meeting of stockholders on March 11, 1968.

DIRECTORS AND OFFICERS

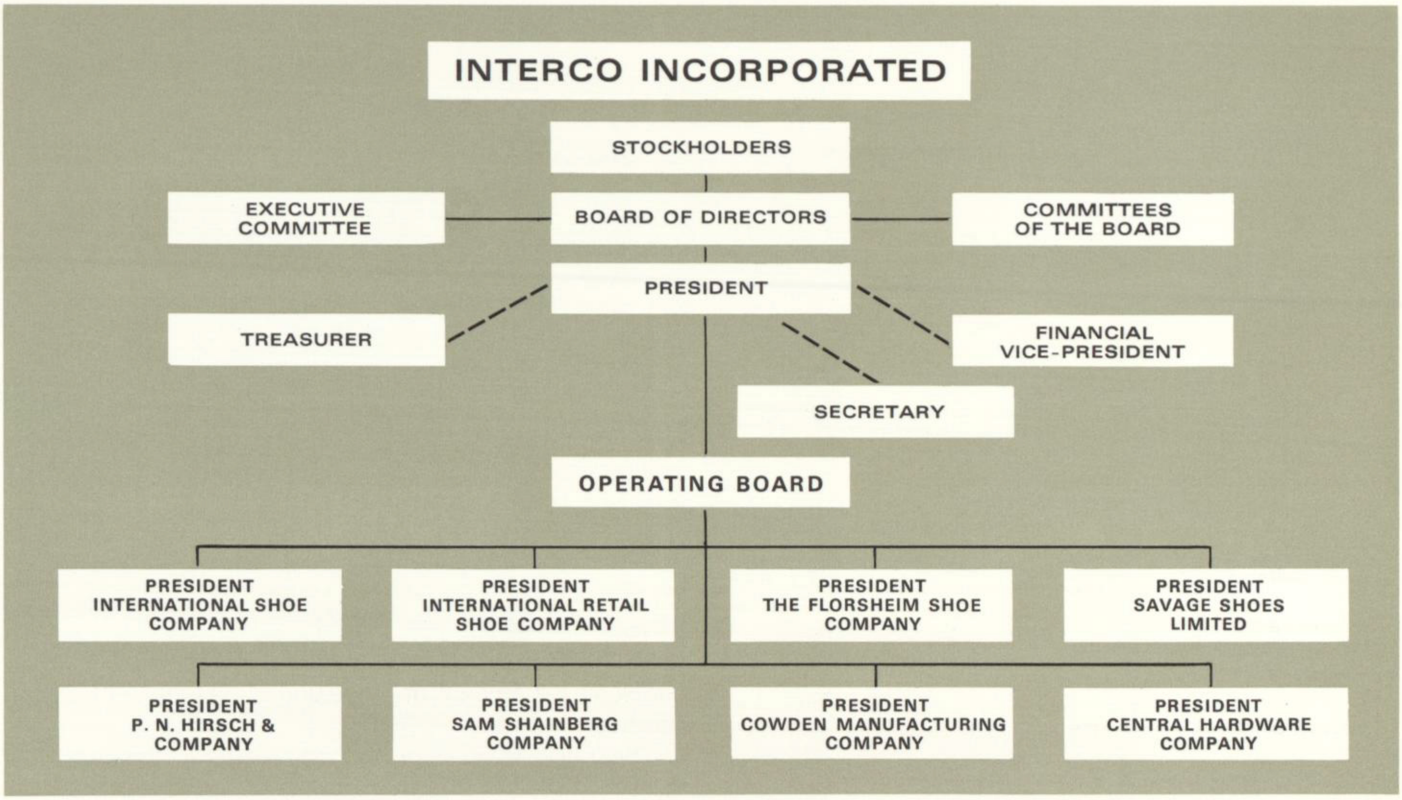
Three new directors were elected to the Board of Directors of INTERCO INCORPORATED on March 13, 1967. They are Stanley M. Cohen, President of Central Hardware Company; John K. Riedy, President of The Florsheim Shoe Company; and Herbert Shainberg, President of Sam Shainberg Company. Mr. Cohen and Mr. Riedy were elected Vice-Presidents of the company in 1966 and Mr. Shainberg was elected a Vice-President on July 10, 1967.

Edward P. Grace, Assistant Secretary, was elected Comptroller of the company on December 4, 1967, and John R. Metcalf was elected Assistant Comptroller.

EMPLOYEES

The company's 33,200 employees are provided a sound program of life insurance, health coverage, and retirement benefits. During the year employees received \$2,200,000 in health and disability payments, and beneficiaries of deceased employees received \$933,000 in life insurance proceeds. Payments to retired employees exceeded \$2,100,000.

The company is pleased to welcome the 990 employees of the Sam Shainberg Company who joined us during the year.



A Quick Look at Interco Incorporated

Footwear

INTERNATIONAL SHOE COMPANY
INTERNATIONAL RETAIL SHOE COMPANY
THE FLORSHEIM SHOE COMPANY
SAVAGE SHOES LIMITED

Department Stores

P. N. HIRSCH & COMPANY
SAM SHAINBERG COMPANY

Apparel

COWDEN MANUFACTURING COMPANY

Hardware

CENTRAL HARDWARE COMPANY

INTERNATIONAL SHOE COMPANY

The past year was a good one from the viewpoint of profits, and equally important in its long range implication was the intensive concentration by management on the problems of the retailer.

The management of International Shoe Company fully recognizes that profitable growth depends entirely on how well it is able to respond to the needs of the retailer, and to this end, the new Jefferson City distribution center began limited operations in October 1967 and will be fully operational by mid-1968 as scheduled. This ultra modern complex was designed to permit fast, efficient service to all points in the market place. The order selection and inventory control systems are based on the most recent computer technology and equipment, and will materially reduce the time required to service customers' orders.

A new shoe factory at Paducah, Kentucky, began operation in 1967 and will reach its rated capacity of 5,000 pairs per day in 1968. A new factory is planned for our Puerto Rican operations and will be producing shoes in early 1969.

Considerable attention was devoted to the problems incidental to planning and controlling our internal operations. A comprehensive profit planning and budgetary control system was implemented and has resulted in substantial reductions in overhead costs and a significant lowering of inventory levels with improved inventory turn.

With current sales ahead of a year ago, we anticipate higher sales and earnings in 1968.

Latest order filling techniques are used in new 525,000 square foot distribution warehouse.

Entrance to new air-conditioned shoe factory in Paducah, Kentucky, which replaces older plant.

Footwear

Men's shoe department opened in the new Jordan Marsh store, West Palm Beach, Florida.

INTERNATIONAL RETAIL SHOE COMPANY

International Retail Shoe Company again achieved new highs in both sales and earnings in 1967 despite the pressure of higher costs, and sales advanced for the sixth year in a row. Inventories were reduced below the level of a year ago.

The program to open larger shoe retail outlets continued on target. The average annual volume of the attractive, well located units opened during the year is approximately double the volume of the smaller marginal units that were closed. At year end this division had 450 stores and leased departments in operation compared with 463 a year ago.

Leases have been signed for 12 new retail units to be opened in 1968, principally in shopping centers and suburban areas, and 23 additional leases are being processed.

Early in the year warehouse and office space was acquired in Long Island to serve the 64 units in the Eastern Division. These facilities have enabled us to service these units more efficiently.

Emphasis on store modernization, customer service, and styling has been very important in the growth and profitability of International Retail Shoe Company.

As the new year begins, our inventories are in excellent condition and we look to further progress in the year ahead.

New shoe department in Dillard's Brown Dunkin Department Store, Shephard Mall Shopping Center, Oklahoma City.

Nineteen Sixty-Seven marked the Seventy-Fifth Anniversary of The Florsheim Shoe Company.

In achieving this milestone, Florsheim has succeeded in attaining during this anniversary year the highest sales and profits in its history. It thus continues to maintain the leadership held during the past three quarters of a century in the men's quality shoe field.

Continued improvements have been made in the field of style development of men's shoes. Greatly expanded facilities have been established so as to provide for the production of new lines and the improvement of existing lines.

The past year recorded the highest sales of Florsheim women's shoes in the history of this division, reflecting the continued acceptance of these lines by the women of America.

New retail outlets continue to be opened by the Florsheim Division, many in outstanding men's clothing stores across the country. 1968 will be another exciting year in the growth of the Florsheim retail division, with additional units scheduled to be opened.

This division's Australian affiliate, Julius Marlow Holdings Limited, has completed its fortieth year as the leading manufacturer of men's shoes in that country. It too, during the past year, has achieved the highest profits in its history. The manufacture of Florsheim Shoes continues at a satisfactory level in Australia.

The Florsheim Division enters its seventy-sixth year with the same degree of enthusiasm that has marked its past seventy-five years.

Highest quality leather and skilled craftsmen combine to maintain Florsheim's leadership position.

One of the 43 attractive retail units opened in 1967—Thayer McNeil Store, Old Orchard Shopping Center, Skokie, Illinois.

Footwear

SAVAGE SHOES LIMITED

Sales of Savage Shoes Limited, the company's Canadian subsidiary, increased in 1967 over the record high achieved in 1966. Earnings were somewhat below the 1966 level due to costs involved in plant consolidations, and action taken to sharply reduce wholesale and retail inventories. Benefits of these moves should be reflected in 1968 results.

Retail operations were expanded during the year with the opening of two new leased departments in Ontario and Nova Scotia. A new Florsheim shop in Calgary, Alberta, was opened in March, and the second new store in the Toronto-Dominion Tower, Toronto, in October. New stores will be opened in Toronto and Kitchener, Ontario, early in 1968, and openings are planned for late 1968 or early 1969 in the new Burlington Centre in Canada's "Golden Horseshoe" between Toronto and Hamilton, Ontario.

New sales offices have been opened in the modern show mart in Place Bonaventure, a major new development in downtown Montreal. Space has been provided there for the display and sale of a major line of imported shoes distributed through the company's London Shoe Division.

It is expected that sales volume and earnings of Savage Shoes Limited will improve in 1968.

One of the attractive sample rooms opened recently in Place Bonaventure merchandising mart, Montreal, Quebec.

Savage's new Preston, Ontario shoe plant which reached scheduled production in 1967.

P. N. HIRSCH & COMPANY

Colorful yard goods department in the beautiful new Hammel's suburban Mobile, Alabama store.

Warehouse facilities were expanded at P. N. Hirsch headquarters and distribution center in Overland, Missouri in 1967.

Completing its fourth year as a division of INTERCO INCORPORATED, P. N. Hirsch & Company established a new high record in sales and earnings.

At year end this division was operating 208 stores. These consist of 158 P. N. Hirsch stores in the midwest and 45 stores in the northwest operating as Idaho Department Stores, Millers, Keith-O'Brien and Carithers. In addition, there is one full line department store and two smaller units operating under the Thornton name in Abilene, Texas, and two full line stores in Mobile, Alabama under the name Hammel's.

The second Hammel's store is an attractive new 110,000 square foot branch which was opened in August, 1967 in suburban Bel Aire Mall, Mobile's first enclosed mall center. This move strengthened Hammel's position as Mobile's oldest and largest quality department store.

In December, 1967, P. N. Hirsch & Company completed a 50,000 square foot addition to its Walton Road warehouse in Overland, Missouri. The larger warehouse will provide for better service to the company's midwest stores and will enable the division to continue its growth program of opening new stores in midwest communities and shopping centers.

Management of the Hirsch division feels that prospects are favorable for another increase in sales and earnings for 1968.

Department Stores

SAM SHAINBERG COMPANY

Sam Shainberg Company, a chain of 88 junior department stores, is headquartered in Memphis, Tennessee, with store locations in the south central and southeastern United States. The company began operations in 1904, and through a carefully planned program of internal expansion has grown to a volume of $46 million.

The company has two retail store divisions—one is made up of forty-three Shainberg's stores, and the other consists of forty-five Kent's stores. The Shainberg's stores offer a number of retail services, credit plans with emphasis on personal attention, and merchandise for the family which is priced to attract the middle income group.

The Kent's stores, introduced in 1957, are self-service, low overhead operations with no credit or embellishments. They are fast-moving, super-market type operations appealing to bargain-conscious customers. Kent's concentrate on clothing and related items for men, women and children, house furnishings, selected cosmetics and health aids, and limited small hard lines.

The general and administrative offices and warehouse occupy a 250,000 square foot modern air-conditioned building in Memphis. Both chains are serviced from these facilities, which supply all of the store needs including merchandising, procurement, advertising and display materials and services, customer accounts and record-keeping. New store planning and the development and construction of all store fixtures are also provided from these facilities.

Eight new stores are planned for 1968. Primary targets for expansion are in metropolitan shopping center areas and communities over 25,000 population where growth potential is evident.

Pictured above is a self-service Kent's store and below is one of the attractive Shainberg's division stores. Both stores are in Memphis, Tennessee.

COWDEN MANUFACTURING COMPANY

Brilliant array of men's and boys' slacks moving to permanent crease oven.

Cowden Manufacturing Company set new records in sales and earnings for 1967. Contributing to these records were the increased production and the efficiency of its two new plants in western Kentucky which have progressed on schedule.

The change from strictly work garments to leisure and play clothing continued in 1967. Formerly concentrated in heavyweight blue indigo denim overalls and blue jeans, Cowden is keeping pace with its customers' requirements for much higher styling and bolder colors than was evident a few years ago. The appearance of its garments has also changed with the advent of permanently pressed clothing which now account for a sizable portion of its production.

Cowden continues to serve the best known and most successful chains and mail order houses in the country.

During almost 50 years of operation, Cowden has placed particular emphasis on the use of the latest equipment available together with the most modern techniques of manufacturing, warehousing, and internal control. The engineering of its manufacturing units is being continually up-graded.

Surveys by specialists outstanding in their fields are presently underway to assure maximum efficiency in the use of raw materials, as well as in the warehousing and distribution of products to its customers.

Notwithstanding the need for a certain amount of caution in forecasting next year's business, Cowden Manufacturing Company is planning for continued growth both in volume and profit.

Sample display of some of Cowden's products—men's, boys' and little gents'.

Hardware

CENTRAL HARDWARE COMPANY

1967 was a record year for Central Hardware Company in both sales and earnings. While this record was achieved without any significant expansion, it did not interfere with the development of an exciting expansion program which is now taking place.

Two new 70,000 square foot super-market type hardware and lumber stores are now in the process of construction. One is located in St. Charles, Missouri, a rapidly expanding county in the northwest section of the St. Louis metropolitan area; and the other in Alton, Illinois, which is just across the river from St. Louis. These two stores will open during the spring and fall of 1968.

To prepare for this expansion and for other planned store openings, Central has added 60,000 square feet to its warehousing facilities during 1967, and this new area is now being fully utilized.

Central's subsidiary, Witte Hardware Company, has taken steps to strengthen and expand its franchise dealership of XL hardware stores. In addition to the over 200 independently owned XL franchise stores, Witte this year opened its first company-owned store and is planning an expansion into new markets with both independently owned and company-owned stores.

Central Hardware late in 1967 took its first step in the leased department field with the opening of two sporting goods departments in leading department stores in Oklahoma. This move will be studied for expansion possibilities in sporting goods and in other areas of merchandise now handled by Central.

Sketch of Central Hardware Company's St. Charles, Missouri store under construction—model for all future stores.

Financial Section

Consolidated Balance Sheet

Assets

November 30,	1967	1966
Current assets:		
Cash	$ 26,787,766	$ 21,626,092
Receivables, less allowance for cash discounts and doubtful accounts, $1,743,792 ($1,974,316 in 1966)	70,254,581	67,560,061
Inventories:		
Finished products and other merchandise	91,760,733	99,240,930
Raw materials and work in process	24,647,208	28,027,302
	116,407,941	127,268,232
Prepaid expenses	1,789,591	1,016,035
Total current assets	215,239,879	217,470,420
Customers' secured loans, deferred maturities	2,314,455	3,099,485
Excess of investment over equity in consolidated subsidiaries, at acquisition	7,015,403	7,352,056
Sundry investments and other assets	3,054,919	1,930,414
Physical properties, at cost:		
Land	4,469,845	4,433,626
Funds in escrow for construction	3,595,961	—
Buildings and structures	53,941,130	51,623,091
Machinery and equipment	59,354,045	54,811,849
	121,360,981	110,868,566
Less accumulated depreciation	61,951,840	59,826,113
	59,409,141	51,042,453
	$287,033,797	$280,894,828

See accompanying notes to financial statements.

Liabilities and Stockholders' Equity

November 30,	1967	1966
Current liabilities:		
Notes payable to banks	$ —	$ 13,964,217
Current maturities of long-term debt	1,376,521	1,210,767
Accounts payable and accrued expenses	36,772,779	38,776,058
Federal and foreign income taxes	9,031,772	8,104,074
Total current liabilities	47,181,072	62,055,116
Deferred Federal income taxes	2,017,533	1,645,934
Other deferred liabilities	4,796,415	3,687,049
Long-term debt, less current maturities	64,993,533	57,832,609
Minority interests in subsidiaries	3,650,231	3,324,155
Stockholders' equity:		
Preferred stock—without nominal or par value	32,606,600	33,104,000
Common stock—without nominal or par value, authorized 10,000,000 shares; issued 3,711,053 shares (3,684,800 shares in 1966)	55,665,795	55,272,000
Capital surplus	182,069	32,415
Retained earnings	80,612,540	69,128,821
	169,067,004	157,537,236
Less common stock in treasury 136,836 shares (152,061 shares in 1966), at cost	4,671,991	5,187,271
Total stockholders' equity	164,395,013	152,349,965
	$287,033,797	$280,894,828

Consolidated Income and Retained Earnings

Years Ended November 30,	1967	1966
Sales and other income:		
Net sales	$536,186,542	$509,878,448
Interest and other income	4,620,171	3,767,586
	540,806,713	513,646,034
Deductions:		
Cost of sales	370,016,238	358,338,725
Selling, general and administrative expenses	127,791,389	118,488,103
Depreciation	5,770,215	5,508,647
Interest and amortization of expense on long-term debt	2,983,778	2,743,075
Other interest and sundry charges	885,556	1,076,049
	507,447,176	486,154,599
Income before Federal and foreign income taxes	33,359,537	27,491,435
Federal and foreign income taxes	14,111,918	10,938,109
	19,247,619	16,553,326
Net income of minority interests	620,519	435,894
NET INCOME	18,627,100	16,117,432
Retained earnings at beginning of year, as adjusted for pooling of interests	69,128,821	58,660,835
	87,755,921	74,778,267
Deductions:		
Dividends on common stock $1.60 per share ($1.40 per share in 1966)	5,685,495	4,956,846
Dividends on preferred stock	990,598	—
Dividends paid by pooled companies	467,288	692,600
	7,143,381	5,649,446
RETAINED EARNINGS AT END OF YEAR	$ 80,612,540	$ 69,128,821

Consolidated Capital Surplus

Years Ended November 30,	1967	1966
Balance at beginning of year, as adjusted for pooling of interests	$ 32,415	$ —
Adjustments resulting from treasury stock transactions and issuance of stock under option plans	8,329	32,415
Conversion of Series B first preferred stock	141,325	—
CAPITAL SURPLUS AT END OF YEAR	$ 182,069	$ 32,415

See accompanying notes to financial statements.

Notes to Financial Statements

Principles of Consolidation

All subsidiaries with a 51% or greater ownership are included in the consolidated financial statements.

During 1967, the company exchanged 409,950 shares of first preferred stock for the capital stock of Sam Shainberg Company. The exchange has been accounted for as a pooling of interests, and accordingly, the consolidated financial statements include the accounts of Sam Shainberg Company for the years 1967 and 1966.

During April, 1968, the company expects to acquire the capital stock of Campus Sweater and Sportswear Company in exchange for 162,162 shares of $5.25 cumulative convertible second preferred stock with a stated value of $100 per share. Additional shares, not to exceed 37,838, may be issued in 1970 under the terms of this proposed acquisition. The Campus transaction is not reflected in the 1967 financial statements.

Inventories

Eighty-eight percent of the inventories are priced at the lower of cost, first-in, first-out, or replacement market. The remainder of the inventories are priced at cost, last-in, first-out (LIFO), which is below replacement market.

Long-Term Debt and Dividend Restrictions

Long-term debt includes the following:

	1967	1966
4⅝% promissory installment notes due annually $1,875,000, 1970 through 1989, and balance in 1990	$50,000,000	$50,000,000
Obligations under long-term lease arrangements, payable in semi-annual installments through 1991	8,500,000	—
Other debt payable in varying amounts through 1982	7,870,054	9,043,376
	66,370,054	59,043,376
Less current maturities	1,376,521	1,210,767
	$64,993,533	$57,832,609

The 4⅝% note agreement provides that no payment be made for dividends unless consolidated working capital shall be at least $80,000,000. The agreement also restricts retained earnings of $43,810,400 as to the payment of cash dividends on capital stock.

Obligations under long-term lease arrangements result from a transaction considered in substance to be an installment purchase. As such, the leased property has been included in physical properties.

Capital Stock

First preferred stock—577,060 shares authorized without nominal or par value:	1967	1966
Series A—$4.75 cumulative, with stated and minimum liquidating value of $100 per share; convertible into 2.1739 shares of common; 167,060 shares outstanding	$16,706,000	$16,706,000
Series B—$2.10 cumulative, with stated and minimum liquidating value of $40 per share; convertible into 1 share of common; 397,515 and 409,950 shares outstanding respectively	15,900,600	16,398,000
Second preferred stock—1,000,000 shares authorized and available for issue in any amount of one or more series; none issued	—	—
	$32,606,600	$33,104,000

At November 30, 1967, 919,037 shares of common stock were reserved for conversions of preferred stock and exercise of stock options.

Assuming full conversion of all preferred stock, although the majority of the preferred stock is not currently convertible, the earnings per share for 1967 and 1966 would have been $4.32 and $3.74 as compared with $4.78 and $4.09 before conversion.

At the beginning of the year, stock options were outstanding for 93,875 shares of common stock. In November 1967, options for 101,400 shares were granted out of a newly established stock option plan for 150,000 shares which is to be submitted to stockholders for approval at the annual meeting on March 11, 1968. Options for 36,925 shares were exercised during 1967 leaving options for 158,350 shares outstanding at the end of the year.

Commitments

The company and its subsidiaries have pension plans covering substantially all of its employees. The company's policy with respect to principal pension plans is to fund pension costs accrued. The total pension expense for the year was $3,300,000, which includes, as to certain of the plans, amortization of prior service costs over periods ranging from 20 to 30 years. The actuarially computed value of vested benefits as of latest valuation dates of the plans exceed the total of the pension fund and balance sheet accruals by approximately $3,500,000.

Excluding rental payments on long-term lease arrangements, minimum annual rentals on properties leased for terms of more than five years approximate $7,000,000.

Accountants' Report

THE BOARD OF DIRECTORS AND STOCKHOLDERS
INTERCO INCORPORATED:

We have examined the consolidated balance sheet of INTERCO INCORPORATED and subsidiaries as of November 30, 1967 and the related statements of income and retained earnings and capital surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated income and retained earnings and capital surplus present fairly the financial position of INTERCO INCORPORATED and subsidiaries at November 30, 1967 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

St. Louis, Missouri
January 9, 1968

Ten Year Consolidated Financial Review

YEARS ENDED

	1967	1966	1965
FOR THE YEAR			
Net Sales	$536,187	$509,878	$421,326
Income Before Taxes	33,360	27,491	21,803
Federal and Foreign Income Taxes	14,112	10,938	9,175
Net Income (1)	18,627	16,117	12,062
Dividends Paid on Common Stock	5,685	4,957	4,292
Percentage of Net Income to Sales	3.5%	3.2%	2.9%
AT YEAR END			
Cash and Securities	$ 26,788	$ 21,626	$ 20,459
Receivables	70,255	67,560	60,579
Inventories	116,408	127,268	99,168
Prepaid Expenses	1,789	1,016	952
Total Current Assets	215,240	217,470	181,158
Current Liabilities	47,181	62,055	42,027
Working Capital	168,059	155,415	139,131
Physical Properties (Net)	59,409	51,043	43,730
Other Assets	12,385	12,382	12,154
Deferred Liabilities	6,814	5,333	3,221
Long-term Debt	64,994	57,833	53,645
Minority Interests in Subsidiaries	3,650	3,324	3,233
Preferred Stock	32,607	33,104	16,706
Common Stockholders' Equity	$131,788	$119,246	$118,210
Shares of Common Stock Outstanding	3,574,217	3,532,739	3,574,874
PER SHARE OF COMMON STOCK			
Net Income (2)	$ 4.78	$ 4.09	$ 3.15
Dividends	1.60	1.40	1.20
Stockholders' Equity	36.87	33.75	33.07

(1) After adjustment for minority interests.

(2) Based on average shares.

(3) Includes companies acquired on a pooling of interests basis in the year indicated and thereafter: P. N. Hirsch & Co.—1964, Central Hardware Company—1965, Sam Shainberg Company—1966.

INTERCO INCORPORATED

NOVEMBER 30

1964	1963	1962	1961	1960	1959	1958
(DOLLARS IN THOUSANDS)						
$345,448	$295,615	$303,182	$294,275	$296,470	$283,261	$244,314
14,397	12,302	16,008	9,369	18,855	19,400	15,554
5,518	6,528	8,616	4,081	10,101	10,132	7,938
8,441	5,493	7,071	5,191	8,867	9,207	7,541
4,118	4,004	4,050	6,116	6,113	6,050	7,043
2.4%	1.9%	2.3%	1.8%	3.0%	3.3%	3.1%
(DOLLARS IN THOUSANDS)						
$ 25,078	$ 21,966	$ 16,453	$ 16,683	$ 11,634	$ 9,952	$ 12,317
49,764	54,113	54,807	55,048	53,598	52,418	43,468
86,287	72,003	77,000	74,355	83,385	80,198	65,473
916	737	747	707	781	680	404
162,045	148,819	149,007	146,793	149,398	143,248	121,662
35,249	29,981	30,675	27,952	28,800	42,291	24,291
126,796	118,838	118,332	118,841	120,598	100,957	97,371
41,019	40,318	40,976	40,247	40,538	38,588	37,882
10,535	9,343	9,527	9,772	10,339	10,805	10,836
2,768	2,516	1,474	788	729	630	581
52,626	52,229	54,571	56,820	58,585	40,351	41,316
3,304	2,584	1,481	1,438	1,395	1,453	912
—	—	—	—	—	—	—
$119,652	$111,170	$111,309	$109,814	$110,766	$107,916	$103,280
3,585,005	3,281,277	3,341,470	3,397,222	3,398,022	3,395,222	3,353,718
(IN DOLLARS)						
$ 2.44	$ 1.65	$ 2.10	$ 1.53	$ 2.61	$ 2.74	$ 2.25
1.20	1.20	1.20	1.80	1.80	1.80	2.10
33.38	33.88	33.31	32.32	32.60	31.78	30.80

DIRECTORS

WILLIAM J. BANKS
DAVID R. CALHOUN
Chairman of the Board
St. Louis Union Trust Company
MAURICE R. CHAMBERS
STANLEY M. COHEN
WEBSTER L. COWDEN
KENTON R. CRAVENS
Chairman of the Executive Committee
Mercantile Trust Company National Association
RICHARD H. ELY
HAROLD M. FLORSHEIM
J. RUSSELL FORGAN
Chairman of the Board
Glore Forgan, Wm. R. Staats Inc.
JOSEPH FOX
PHILIP N. HIRSCH
J. LEE JOHNSON
JOHN S. MALCOLM
NORFLEET H. RAND
JOHN K. RIEDY
EDWARD J. RILEY, JR.
HERBERT SHAINBERG
JOHN D. WINFREY

OFFICERS

MAURICE R. CHAMBERS, Chairman of the Board and President
NORFLEET H. RAND, Vice Chairman of the Board and Treasurer
WILLIAM J. BANKS, Financial Vice-President
HAROLD M. FLORSHEIM, Vice-President
JOHN D. WINFREY, Vice-President
JOSEPH FOX, Vice-President
PHILIP N. HIRSCH, Vice-President
WEBSTER L. COWDEN, Vice-President
JOHN S. MALCOLM, Vice President
JOHN K. RIEDY, Vice-President
STANLEY M. COHEN, Vice-President
HERBERT SHAINBERG, Vice-President
RICHARD H. ELY, Secretary
EDWARD P. GRACE, Assistant Secretary
RONALD L. AYLWARD, Assistant Secretary
DUANE L. STARR, Assistant Treasurer

GENERAL COUNSEL

RICHARD H. ELY

GENERAL OFFICES

1509 Washington Avenue, St. Louis, Missouri 63166

REGISTRARS

Morgan Guaranty Trust Company
New York, New York
St. Louis Union Trust Company
St. Louis, Missouri
Union Planters National Bank of Memphis
Memphis, Tennessee

TRANSFER AGENTS

Manufacturers Hanover Trust Company
New York, New York
Mercantile Trust Company National Association
St. Louis, Missouri
The First National Bank of Memphis
Memphis, Tennessee

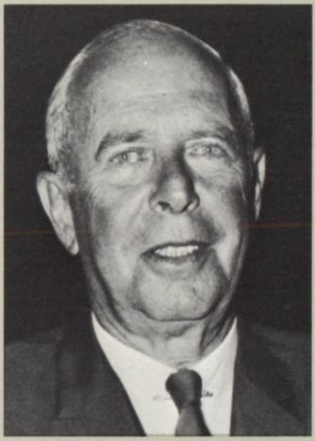
Directors

INTERCO INCORPORATED

WILLIAM J. BANKS

DAVID R. CALHOUN

RICHARD H. ELY

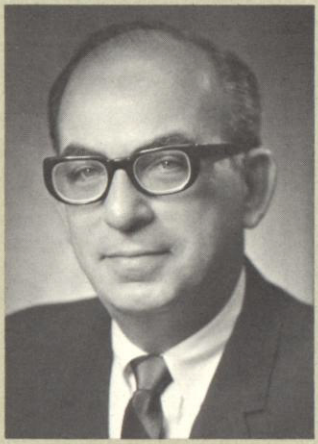


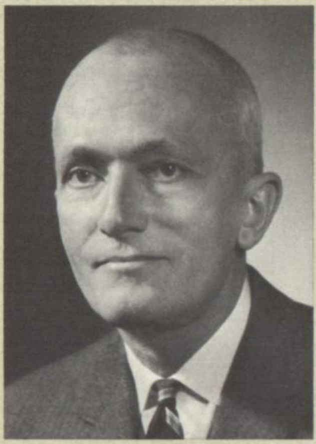
HAROLD M. FLORSHEIM

JOHN S. MALCOLM

NORFLEET H. RAND


MAURICE R. CHAMBERS


STANLEY M. COHEN

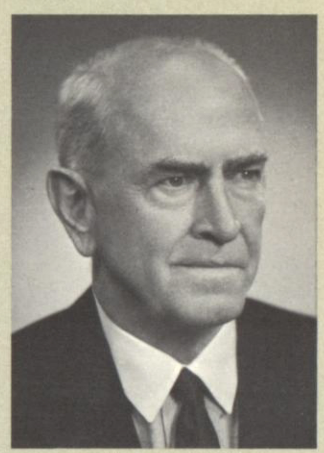

WEBSTER L. COWDEN


KENTON R. CRAVENS


J. RUSSELL FORGAN


JOSEPH FOX


PHILIP N. HIRSCH


J. LEE JOHNSON


JOHN K. RIEDY


EDWARD J. RILEY, JR.


HERBERT SHAINBERG


JOHN D. WINFREY

INTERCO INCORPORATED / Saint Louis, Missouri